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POLICY

FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

REVISED BUDGET ESTIMATES FOR THE BIENNIUM 1992-1993

Report of the Administrator

SUMMARY

The Administrator's report contains the revised budget estimates of the United Nations Development Programme for the 1992-1993 biennium. The revised estimates for core activities amount to $478 million gross and $446 million net. In net terms, this represents a decrease of $4 million (0.9 per cent) in relation to the original appropriation approved in 1991. The revised estimates for the United Nations Development Programme core and non-core activities as a whole amount to $607 million gross and $575 million net. With regard specifically to non-core activities, this represents in gross terms a reduction of $0.4 million, including a volume increase relating to OPS budgetary activities amounting to $1.5 million.

The Administrator's report also contains his budget strategy as related to the 1994-1995 budget.

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INTRODUCTION

1. The 1990s present new and important challenges for the entire United Nations system. The United Nations is being called upon to assume new roles and functions in a rapidly changing world order and is responding in a variety of ways: the humanitarian initiatives being launched throughout the world; the launching of new peacemaking initiatives; the role of the United Nations in the process of democratization and electoral reform; the role of the United Nations in economies in transition; the role of the United Nations in the Persian Gulf; environmental initiatives related to the Earth Summit; and the restructuring of the United Nations itself. All these challenges, and many others, present the United Nations with extraordinary new opportunities.

2. The challenges present opportunities for the United Nations system as a whole. For the United Nations Development Programme (UNDP) specifically, its global field network, extensive field experience and coordination role in technical cooperation give the Organization a unique role in contributing in a cost-effective manner to the evolving role of United Nations system.

3. The empirical and tangible nature of this contribution can be seen in every part of the world. Repeatedly, UNDP has been requested by the General Assembly, the Governing Council, Member States, and the Secretary-General to undertake a wide variety of tasks. Resident Coordinators and UNDP field offices make a critical contribution to emergency operations, for example, in the Horn of Africa and Liberia. UNDP staff provided basic support to the Secretary-General's representative in Iraq. UNDP is playing a vital role in the electoral process being undertaken in a number of countries, including El Salvador, Cameroon and Mali. UNDP is playing a significant role in the reconstruction efforts being launched in Cambodia, Afghanistan and El Salvador, which are such an integral component of the peacemaking process. The UNDP Resident Representative in Brazil and UNDP offices throughout the world are making a critical contribution to the preparation of the Earth Summit. UNDP has been requested by the governments of the Commonwealth of Independent States to provide assistance to the societies in transition. In the context of the restructuring process, the Secretary-General has asked UNDP to cooperate in a project to integrate the United Nations Information Centres in a number of countries with their counterpart UNDP offices and thus reduce operational expenses and duplication of administrative structures.

4. This list is not comprehensive. It is merely indicative of the role of UNDP in contributing to meet the extraordinary opportunities facing the United Nations. The Administrator continues to be committed to a lean core budget and to ensuring that every dollar possible is devoted to the programme. This commitment is reflected in the Administrator's proposed 1994-1995 budget strategy. At the same time, the Administrator would be remiss in his duties if he did not focus attention on the extraordinary challenges to UNDP that have resulted from a rapidly changing international environment. In particular, the UNDP field network in place is being called upon repeatedly and increasingly to take on new responsibilities. While recognizing the voluntary nature of UNDP funding, the Administrator believes that the

Governing Council, and eventually the General Assembly, must weigh the costs associated with performing these broader functions against the impact on the effectiveness of the system of not performing them at all. Clearly, the Administrator is of the view that such costs must not be measured against the traditional UNDP programme delivery. As a step in this direction, the 1994-1995 budget strategy includes a clearer delineation between types of costs associated with UNDP field office workload.

5. It is against this background that the Administrator is presenting his 1992-1993 revised estimates and his 1994-1995 budget strategy. The revised budget estimates for the biennium 1992-1993 include the following elements:

(a) Cost and volume adjustments relating to the 1992-1993 core budget;

(b) The Administrator's budget strategy relating to the 1994-1995 budget, including consideration of matters raised in paragraphs 6 through 12 of Governing Council decision 91/46 of 21 June 1991;

(c) Volume and cost adjustments relating to OPS, including the consideration of matters raised in paragraphs 28 and 29 of Governing Council decision 91/46;

(d) Information relating to the extrabudgetary resources of IAPSO;

(e) Other matters, specifically consideration of paragraph 22 of Governing Council decision 90/45.

6. In considering the revised budget estimates for the 1992-1993 biennium, the following additional documents should be noted:

(a) DP/1992/45 contains the report of the Administrator on the senior management structure. It should be noted that the report has no budgetary implications in respect of the 1992-1993 budget. The issue of the technical capacity of the Central Evaluation Office, raised in paragraph 22 of Governing Council decision 91/46, is discussed in document DP/1992/45. The Administrator's approach does not have budgetary implications;

(b) DP/1992/51 contains the Administrator's proposals regarding UNDP assistance to the Commonwealth of Independent States. This document contains budgetary implications which will have to be considered in addition to the revised budget estimates contained in the present document.

I. REVISED 1992-1993 CORE BUDGET ESTIMATES

A. Cost adjustments

7. Cost adjustments relating to the core budget amount to a total reduction of $4.7 million. A currency release of $6.3 million and a downward inflation adjustment of $1.5 million are partially offset by cost adjustments amounting to $3.0 million.

8. The currency release relates to the impact of the difference in exchange rates between February 1991, when the original 1992-1993 estimates were formulated and February 1992, the basis for the revised estimates.

9. The downward adjustment in inflation rates reflects adjustments in United Nations projections at Headquarters as well as revised field projections. Cost adjustments relate to the following staff cost categories: home leave ($0.6 million); security ($0.8 million); pension contributions ($1.4 million); and medical insurance ($0.7 million). This is partially offset by a reduction in the education grant of $0.5 million.

10. Similar currency, inflation and other cost adjustments have been applied to the Programme support and development activities appropriation lines as well as to the resources of the trust funds and are reflected in table A.

B. Volume adjustments

11. No volume adjustments are being proposed by the Administrator with respect to the core 1992-1993 budget estimates, with the exception of the Humanitarian Programme.

12. In its decision 91/17, of 25 June 1991, the Governing Council authorized the Administrator to establish a small support unit at headquarters for humanitarian activities. In this connection, the Council, in its decision 91/46, established the posts of Director and Deputy of the unit at the D-2 and P-5 levels. In addition, the Council noted the intention of the Administrator to charge two specialist posts (for disaster preparedness and prevention and for the internally displaced) to the Special Programme Resources (SPR) at the L-5 and L-4 levels. This authorization was given for a one-year period, pending the results of the forthcoming General Assembly debate on the restructuring of coordination of humanitarian assistance of the United Nations system.

13. On 19 December 1991, the General Assembly adopted by consensus resolution 46/182. This resolution emphasized the relief to development continuum, underlined the need for development assistance organizations to be involved in humanitarian assistance at an early stage, reiterated the coordination role of the resident coordinator, called for the UNDP/Office of the United Nations Disaster Relief Coordinator (UNDRO) Disaster Management Training Programme (DMTP) to be strengthened and broadened and called for organizations to develop special emergency administrative, financial and personnel procedures. UNDP has already started to respond to all of these provisions.

14. As elaborated in document DP/92/19, emergency situations in many parts of the world further deteriorated during 1991. The involvement of UNDP field offices in supporting resident coordinators in emergency operations has thus deepened, as has the need for headquarters to provide them with focused and professional support.

15. Accordingly, the Administrator requests the approval of the Governing Council to continue the same staffing arrangements for the balance of the 1992-1993 biennium as were approved for the period June 1991 to June 1992. The financial implication for the 1992-1993 core budget is $549,800. Table B provides the proposed revised 1992-1993 biennial budget estimates.

Table A. SUMMARY OF REVISED 1992-1993 GROSS BIENNIAL BUDGET ESTIMATES INDICATING AMOUNTS ATTRIBUTABLE TO CATEGORY OF COST INCREASE/DECREASE
(in thousands of US dollars)

Source of funds/ appropriation line	1992-1993 Approved appropriation	Volume increase/ decrease	Cost increase/decrease: Various cost adjustments	Currency adjustment	Inflation adjustment	Total cost adjustment	Total increase (decrease)	1992-1993 Revised estimates
I. RESOURCES OF UNDP								
A. UNDP core activities								
Headquarters	148 443.1	549.8	158.0	(316.3)	(962.8)	(1 121.1)	(571.3)	147 871.8
Field offices	333 781.0	0.0	2 883.6	(5 933.7)	(510.2)	(3 560.3)	(3 560.3)	330 220.7
Gross UNDP core activities	482 224.1	549.8	3 041.6	(6 250.0)	(1 473.0)	(4 681.4)	(4 131.6)	478 092.5
Estimated income	32 000.0	0.0	0.0	0.0	0.0	0.0	0.0	32 000.0
Net UNDP core activities	450 224.1	549.8	3 041.6	(6 250.0)	(1 473.0)	(4 681.4)	(4 131.6)	446 092.5
B. Programme support and development activities								
1. Programme development activities a/	20 638.2	0.0	194.0	0.0	(95.9)	98.1	98.1	20 736.3
2. Project/programme implementation services								
OSS	5 788.7	0.0	0.0	0.0	0.0	0.0	0.0	5 788.7
OPS	30 737.7	1 960.1	(242.2)	0.0	(180.6)	(422.8)	1 537.3	32 275.0
IAPSO	5 946.5	0.0	(51.9)	(184.6)	(34.9)	(271.4)	(271.4)	5 675.1
UNV	32 196.1	0.0	(52.1)	(1 711.7)	398.5	(1 365.3)	(1 365.3)	30 830.8
National execution	2 715.7	0.0	0.0	0.0	(35.3)	(35.3)	(35.3)	2 680.4
Total project/programme implementation services	77 384.7	1 960.1	(346.2)	(1 896.3)	147.7	(2 094.8)	(134.7)	77 250.0
3. Programme support b/	2 300.0	0.0	0.0	0.0	0.0	0.0	0.0	2 300.0
Total programme support and development activities	100 322.9	1 960.1	(152.2)	(1 896.3)	51.8	(1 996.7)	(36.6)	100 286.3
C. Total resources of UNDP								
Gross resources	582 547.0	2 509.9	2 889.4	(8 146.3)	(1 421.2)	(6 678.1)	(4 168.2)	578 378.8
Estimated income	32 000.0	0.0	0.0	0.0	0.0	0.0	0.0	32 000.0
Net resources	550 547.0	2 509.9	2 889.4	(8 146.3)	(1 421.2)	(6 678.1)	(4 168.2)	546 378.8
II. RESOURCES OF TRUST FUNDS								
A. UNCDF	10 740.0	0.0	(54.7)	0.0	(58.2)	(112.9)	(112.9)	10 627.1
B. UNRFHRE & UNFSTD	4 551.7	0.0	(48.7)	0.0	(21.8)	(70.5)	(70.5)	4 481.2
C. UNSO	8 146.8	0.0	16.0	(75.8)	(48.8)	(108.6)	(108.6)	8 038.2
D. UNIFEM	5 408.5	0.0	(34.1)	0.0	(27.0)	(61.1)	(61.1)	5 347.4
Total	28 847.0	0.0	(121.5)	(75.8)	(155.8)	(353.1)	(353.1)	28 493.9
III. TOTAL UNDP APPROPRIATIONS								
Gross resources	611 394.0	2 509.9	2 767.9	(8 222.1)	(1 577.0)	(7 031.2)	(4 521.3)	606 872.7
Estimated income	32 000.0	0.0	0.0	0.0	0.0	0.0	0.0	32 000.0
Net resources	579 394.0	2 509.9	2 767.9	(8 222.1)	(1 577.0)	(7 031.2)	(4 521.3)	574 872.7

a/ Includes: (a) Headquarters: Human development, environment and natural resources, private sector and technology, public sector management, TCDC/INRES and (b) Field Offices: Economists, representing $7.5 million.

b/ Represents UNDP contribution to CGIAR and UNDP-UNSO/UNEP joint venture.

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II. 1994-1995 BUDGET STRATEGY

Introduction

16. In its decision 91/46, the Governing Council congratulated the Administrator for applying a restrictive budget policy. At the same time, the Council stressed that resources should be used primarily for programme activities and that administrative expenditures should be kept to the necessary minimum. Against this background, the Council requested the Administrator to take appropriate steps to reduce and, if possible, reverse the growth of administrative expenditures, bearing in mind the need to maintain them at as low a percentage as possible of overall resources over the whole cycle while maintaining programme quality. It requested the Administrator to report to the Governing Council at its thirty-ninth session.

17. Following the thirty-eighth session of the Governing Council (1991), the Budget Strategy Group was reconvened under the chairmanship of the Assistant Administrator, Bureau for Finance and Administration (BFA). Participants included the Directors of the Division of Finance (DOF), the Division of Personnel (DOP), the Planning and Coordination Office (PCO) and the Administrator's Office, the Deputy Directors of the regional bureaux and the Assistant Administrator, Bureau of Programme Policy and Evaluation (BPPE). The Group considered alternative strategies during the course of 1991. In addition, regional consultations were held and a joint BFA/Regional Bureau for Asia and the Pacific (RBAP) mission was undertaken to explore options. Finally, in early 1992, the Management Board, chaired by the Administrator, adopted the strategy outlined below.

18. In line with decision 91/46 and the comments of the Advisory Committee on Administrative and Budgetary Questions (ACABQ), the Administrator remains fully committed to pursuing his policy of ensuring that every dollar possible is allocated to development activities in the field. Bearing in mind decision 91/46, the comments of ACABQ and the comments contained in the report of the Budgetary and Finance Committee (DP/1991/71) the Administrator is considering a budget strategy in respect of 1994-1995 based on two strategic goals:

(a) Further administrative cost reduction;

(b) Increased transparency regarding the nature of the services rendered by UNDP field offices to non-UNDP-financed programmes and the associated costs thereof.

These two elements are discussed in detail below.

A. Strategic goal one: Further administrative cost reduction

19. The Administrator has established as a target for the 1994-1995 core budget the absorption of cost increases in (a) the headquarters core budget and (b) in that portion of the field core budget related to the UNDP-financed programme. The 1992-1993 headquarters core budget is $148 million and the concerned portion of the field core budget is estimated at 56 per cent of $334 million. The absorption of projected inflation and other mandated costs is currently estimated to require a volume reduction of some $30 million to $40 million in the 1994-1995 biennium. The Administrator believes that this target represents a significant step towards meeting the intent of decision 91/46, in particular paragraph 9 thereof. Overall, the strategy is intended to reverse the growth of programme support expenditure as it relates to the delivery of the UNDP programme. It is also intended to reduce the growth of other programme support expenditures.

20. In order to achieve this target, the Administrator intends to focus on the following three elements:

(a) The rationalization of business functions;

(b) The cost-effectiveness of business practices;

(c) The management of change: human resource aspects.

1. The rationalization of business functions

21. The Administrator has identified five principal areas where current business practices will be reviewed with a view to achieving increased efficiency and hence savings:

(a) The implementation of the Integrated Administrative Systems project. Specific reference was made to this in document DP/1991/49, volume I, paragraph 99. It is expected that the implementation of specific modules will enable further savings to be made. The administration of travel provides one example;

(b) Implementation of the programme functions review, to which reference was also made in document DP/1991/49, volume I, paragraph 99. The identification and elimination of duplicative or less essential functions is expected to lead to additional savings. Workload related to the processing of project documents provides one example;

(c) The interface between headquarters and the field. Ways of reducing workload both in the field and at headquarters by increasing the delegation of authority while strengthening accountability will be further explored. The implementation of regional service centres, explained below, will play a critical role if progress is to be made towards delegation with accountability;

(d) Consolidation of programme management in the field. Workload is clearly related to the number of discreet activities and projects being undertaken by a field office. Offices will continue to provide a full range of services in line with the coordination function of UNDP and bearing in mind the opportunity cost of not doing so. However, activities related to the execution of the UNDP programme itself will be consolidated in line with decision 90/21 and the move towards a programme approach;

(e) Implementation costs to be borne by the Programme. Clear guidance is being provided to resident representatives to ensure that the implementation of activities is managed outside the field offices and that the costs associated with implementation are charged appropriately to the Programme. Field offices should not become intimately involved in the management of project inputs. This is particularly significant in the context of the new successor arrangements and the expansion of national execution. This is a critical element if workload in field offices is to be controlled and managed within the resources available from the core budget.

2. The cost-effectiveness of business practices

22. The Administrator has identified a number of cost-effective business practices:

(a) Localization. The Administrator will review the appropriateness on a case-by-case basis of replacing junior international professional posts with national professional posts. On account of both the quality of national staff and the cost differential, the Administrator considers that a selective policy of localization would increase the quality of field office staffing while reducing the cost. In general, the Administrator believes that this policy should be pursued at levels below that of Deputy Resident Representative and in particular in the area of programming;

(b) Regional service centres. The concept addresses the issue of relocating service and processing functions from a high-cost to a low-cost area. The concept is in no way intended to introduce a new hierarchical layer. An intermediary layer between headquarters and the field would serve only to introduce a new bureaucratic layer; this is not being contemplated. The perceived advantages include the following: reduced staff costs; reduced general operating costs; increased efficiency; new opportunities. Those service and processing functions that could be relocated include the following: accounts; aspects of personnel administration; data processing; personnel recruitment (OPS and UNV); procurement; management review and audit; support to national execution; training and evaluation. A pilot test being led by RBAP and BFA is identifying the most appropriate functions for relocation and is planned to be implemented during the course of the 1992-1993 biennium. Pilot schemes with other bureaux are also being reviewed and will be implemented. The functions involved in accounts examination provide one example of the rationale underlying the regional service centre concept. Currently, all accounting documents are copied and submitted to New York,

where the cost of examining them is at the prevailing New York market rates. A team of accountants located at an appropriate subregional office could provide equally effective service at lower cost. Moreover, the constitution of a field team located in the region and able to cover every field office on a regular basis will enable offices with good performance records to maintain the accounting records in the field office. This will lead to a reduction of a significant workload element both at headquarters and in the field. Currently, some 2 million accounting transactions are handled by DOF every year;

(c) Support functions. Both at headquarters and in the field, support functions will be further reviewed with a view to optimizing the use of modern technologies and eliminating with marginal and non-essential functions;

(d) Investments in technology. In particular investments in electronic data processing and communications will be pursued but will be submitted to more rigorous cost/benefits analyses to ensure that theoretical benefits are translatable into concrete savings;

(e) The Field-Service Level function. This will be reviewed and, in principle, a policy of localization of the function will be implemented;

(f) Selective reviews of high-cost offices. The Administrator will undertake these reviews to identify any possibilities for reducing costs without jeopardizing UNDP capacity to respond to country-specific needs;

(g) Government local office cost contributions. The Administrator will renew his efforts to increase government local office cost contributions, thereby reducing the UNDP net core budget;

(h) Net contributor countries. The Administrator will implement the office cost policy relating to net contributor countries as set out in decision 91/29 and further applied in document DP/1992/6.

(i) General operating expenditures. These will be reviewed with a view to achieving savings relating to items such as travel, communications costs and capital items.

23. The Administrator has requested managers to review the proposals presented above and to make suggestions appropriate to specific bureaux, regions and offices. Managers are to be guided by two overriding principles. First, the maintenance of the substantive capacity of UNDP, both at headquarters and in the field, should take first priority. Secondly, the UNDP field office network, its most valuable and unique asset, should be preserved. The Administrator believes that the opportunity cost to the United Nations system as a whole by reducing the number of offices would be greater than the cost of maintaining them. The implementation of the proposals described above will permit the Administrator to achieve his budgetary targets.

3. The management of change: human resource aspects

24. An effective budgetary strategy must be responsive to changing requirements and must therefore incorporate dynamic elements. In order to achieve the reductions outlined above, the Administrator will be making a number of proposals to assist him in the difficult process of the management of change. In the specific field of personnel administration, the Administrator is making two proposals in the areas of responding to non-permanent requirements and reclassifications.

(a) Short-term, non-permanent requirements

25. In UNDP, as in the United Nations, employment is arranged either under a regular staff member contract, or under an arrangement reserved for consultancies. The former relates to the establishment of posts, is appropriate for career service, and carries with it the full range of benefits and conditions to provide job security and social security. The latter is appropriate for brief assignments (from a few days up to six months) and provides little social security and no benefits related to more regular employment.

26. The absence of an intermediate form of employment for individuals whose skills are required for at least six months but clearly not in a continuing, career-oriented function, is a problem unresolved until now. In recent years, the employment of individuals for one, two or three years has become much more common, whether to serve on projects or to deliver specialized services for a finite, well-defined area of work that is not an ongoing function. In paragraphs 164-169 and 171 of the report of the Board of Auditors for 1989 (Official Records of the General Assembly, Forty-fifth Session, Supplement No. 5 (A/45/5/Add.1)), the External Auditors drew attention to the need for a form of employment more responsive to UNDP needs. UNDP has pursued this issue and has established a framework for a new contractual instrument which it intends to introduce on a pilot basis in 1992. Some examples of potential users include the Division for Management Information Services (DMIS) for specialized services in the computer field and OPS for both project and non-project posts. Parallel work is under way in the United Nations common system, and UNDP has participated actively in these consultations. Like UNDP, several organizations are anxious to try out a new form of contract that responds to changing requirements.

27. The new form of contract is intended for use for activities which by their nature and financing are clearly non-continuing. This new form of short-term contract will utilize cost-effective mechanisms of flexible pay bands and lump sum approaches to compensation and travel and will avoid a piecemeal approach and a whole array of benefits that are inappropriate to short-term staff. The application of basic pay principles and provision of staff member status and proper social security protection (including pension fund participation) ensures the fair treatment of these employees. Simplified administrative processes and cost-control limitations can provide the streamlining and efficiency which the Administrator is seeking in this and the next biennium.

28. This contractual arrangement is designed to be, on the whole, cost-neutral in comparison with the existing regular staff member contracts as concerns the overall salary and benefit package. There is a potential for reducing administrative overheads, which will need to be analysed in more detail once some experience is gained in the actual operation of this new format. As no posts are to be established for this purpose, it is the Administrator's intention to reflect the employment of staff under these contracts as a separate object of expenditure in the biennial budget, distinct from the budget line indicating established posts. A budgeted amount, by unit, will be shown along with an estimated number of person/months. The budgeted amount for such services will replace amounts which otherwise would be earmarked for established posts, consultants and, in some instances, subcontracted services. It is the Administrator's intention to reflect this form of contracted services in the revised format in the budget estimates for the biennium 1994-1995. However, to the extent that budgeted funds are available from frozen posts or consultants in the 1992-1993 biennium, this approach will be piloted on a limited trial basis in the current biennium.

29. The new approach to contracts, as a more flexible and appropriate personnel system, is fully consistent with the intention of reviewing business functions to achieve improved administrative systems and workload reductions. In addition, the proposed approach is intended to ensure maximum transparency through a clear identification of the volume of services and the level of budgeted expenditures for this type of contract.

(b) Further implementation of job classification

30. In a dynamic organization, a programme of maintenance (i.e., review and updating) is required to reflect the restructuring of units and their functions and the evolving nature of work. Through the maintenance of the job classification process, the management of change as it impacts on jobs can be facilitated. This should also support the budget strategy described above, in that the systematic review of the nature of the work and level of jobs can be a part of the Administrator's overall efforts in the streamlining of work, elimination of redundant functions, consolidation of activities, relocation of certain functions and localization of others. In support of this, DOP will intensify its maintenance of job classification from 1992 onwards, with a progressive review unit by unit of all posts in headquarters, to be followed by a review of posts in the field.

31. The Administrator proposes here a streamlined mechanism for dealing with the grading of Professional and higher posts, in a way which will allow a timely response to organizational changes while ensuring an effective control on the overall distribution of grade levels among posts. It is proposed that in the period between budget submissions, the Administrator exercise his authority to review and modify the grade levels for posts in the P-1 to P-5 range, on the understanding that this is the result of a thorough job classification review and that the aggregate effect of the changes in the classified level of posts is subject to a zero-sum limitation.

32. Under this approach, job reclassification would be considered and approved by the Administrator as long as the number of upgradings in a given biennium is offset by a corresponding number of downgradings. This zero-sum limitation would apply either on a grade-by-grade basis, or overall in the P-1 to P-5 range, provided there are no financial implications. Upgradings which are not matched by corresponding downgradings would continue to be brought to the Governing Council for approval, before any implementation. The advantage of this arrangement is that it allows a dynamic evolution of the organization of work and that it recognizes a reasonable measure of flexibility in the design of jobs for management to respond to such changes between two-year cycles while still guaranteeing against any unwarranted upward tendency in the overall grading of posts. The above arrangements would apply for posts in the P-1 to P-5 range. For posts at the level of D-1 and higher, the intention is to continue to bring these to the Council for its review and consent before any classification decision is implemented.

4. Summary of strategic goal one: Further administrative cost reduction

33. The Administrator is presenting his strategy as an integrated package of proposals aimed at the most effective use of resources. The three major elements are: (a) the rationalization of business functions; (b) the cost-effectiveness of business functions; (c) the management of change - human resource aspects. The Administrator believes that this strategy will enable him to achieve the ambitious reduction targets established above.

34. The Administrator has given consideration to a number of other elements in decision 91/46. In paragraph 10 of decision 91/46, the Governing Council requested the Administrator to review the staffing requirements of the field offices. In paragraph 11, the Council requested the Administrator to consider further redeployment of posts from headquarters to the field. In paragraph 12, the Council recommended that the distribution of resources among field offices be reassessed as necessary to reflect the distribution of programme resources approved in decision 90/34. The Administrator has initiated action on each of these issues as an integral part of the implementation of his 1994-1995 budget strategy. For example, the implementation of the Council's policy on net contributor countries addresses paragraph 10; the implementation of the regional service centres responds to paragraph 11; and, responding to paragraph 12, budgetary savings, for example in Latin America, will be implemented during the course of 1992-1993 in order to make possible the implementation of the 1994-1995 strategy. A precondition for the successful implementation of the 1994-1995 strategy is an element of flexibility in the deployment of resources during the course of the 1992-1993 biennium. Managerial and budgetary trade-offs will be required to ensure that the necessary reductions are in place by 1994-1995. Against this background, the Administrator proposes to report on the progress made towards the implementation of the 1994-1995 budget strategy during the 1992-1993 biennium to the Council at its fortieth session (1993). This will include presentation of the action taken to date, in particular in response to paragraphs 10, 11 and 12 of decision 91/46.

B. Strategic goal two: Increased transparency regarding the nature of the services rendered by UNDP field offices to non-UNDP-financed programmes and the associated costs thereof

35. The Governing Council in its decision 91/46, and ACABQ, in its report on the Administrator's budgetary proposals (DP/1991/62), requested the Administrator to initiate a number of reviews relating to the presentation of the budget and the classification of costs.

36. One critical element with regard to the Administrator's 1994-1995 budget strategy relates to the treatment of field office workload not related to the delivery of the IPF programme. This has been estimated at 44 per cent for the 1992-1993 budget. In paragraphs 56-58 of its report (DP/1991/62), ACABQ refers to this issue and invites the Administrator, if he believes that a change is called for, to present specific options for an alternative presentation of the field budget, analysing the advantages and disadvantages of each one.

37. In this connection, the Governing Council, in paragraph 37 of its decision 91/46, requested the Administrator to review the cost elements charged to the UNDP budget not related to the delivery of the indicative planning figure (IPF) programme as well as costs incurred on behalf of UNDP by others, and also requested the Administrator to provide an analysis of appropriate sources of funding for these elements.

38. Against this background, the Administrator proposes in the first place to collect more reliable empirical data from field offices on the distribution of workload. Time workload studies will be conducted in the field offices. On the basis of this, the Administrator will present the information collected in the context of the 1994-1995 estimates.

39. The Administrator is considering to present in future budgets that portion of the field office workload specifically related to support to the operational activities of the United Nations system under a separate appropriation line of the Programme support and development activities appropriation component of the appropriation decision. The appropriation may be called Support to operational activities of the United Nations system. One option would be to budget for this line separately. However, this option would be administratively cumbersome and lead to artificial budgetary practices in field offices. Many staff members share the burden of providing such support. The other option, therefore, which appears more appropriate at this time, would be to treat this new appropriation line from a budgetary management perspective as a subvention to the core budget appropriation. For the field offices, gross budgets would be appropriated, including the sum of the core and support to operational activity appropriation lines. All core budget tables submitted to the Governing Council would be gross, including the subvention.

40. In conclusion, the subvention would serve simply as a mechanism to provide a more transparent presentation, clearly identifying costs related to operational system support as a whole. The Administrator believes that this would also be in line with the rationale underlying the relevant proposals in the final report by the Nordic United Nations Project, entitled The United Nations in development (the "Nordic report"). Any consideration of the financing arrangement of the type presented in the Nordic report would require in the first place a transparent presentation of the different types of costs being incurred for operational activities on behalf of the United Nations.

41. With regard to the request to the Administrator to provide an analysis of appropriate sources of funding for non-IPF related workload elements, the Governing Council may wish to consider the following alternatives for ultimate consideration by the General Assembly and other governing bodies of the United Nations system, as appropriate:

(a) The full cost is charged to UNDP but the cost is reflected separately and transparently;

(b) The full cost is charged to UNDP and is reflected as an integral part of the UNDP core budget;

(c) The full cost is subject to an assessed budget;

(d) The full cost is reimbursed on the basis of an agreed apportionment by all participating organizations in the system.

42. The Administrator proposes to proceed on the basis that option (a) above best represents the central coordinating role of UNDP, pending further examination by the Governing Council of the issues involved.

43. Finally, the Administrator proposes to consult with the specialized agencies in order to be able to respond to the request contained in paragraph 37 of decision 91/46 to ascertain the costs incurred on behalf of UNDP by others.

III. OFFICE FOR PROJECT SERVICES

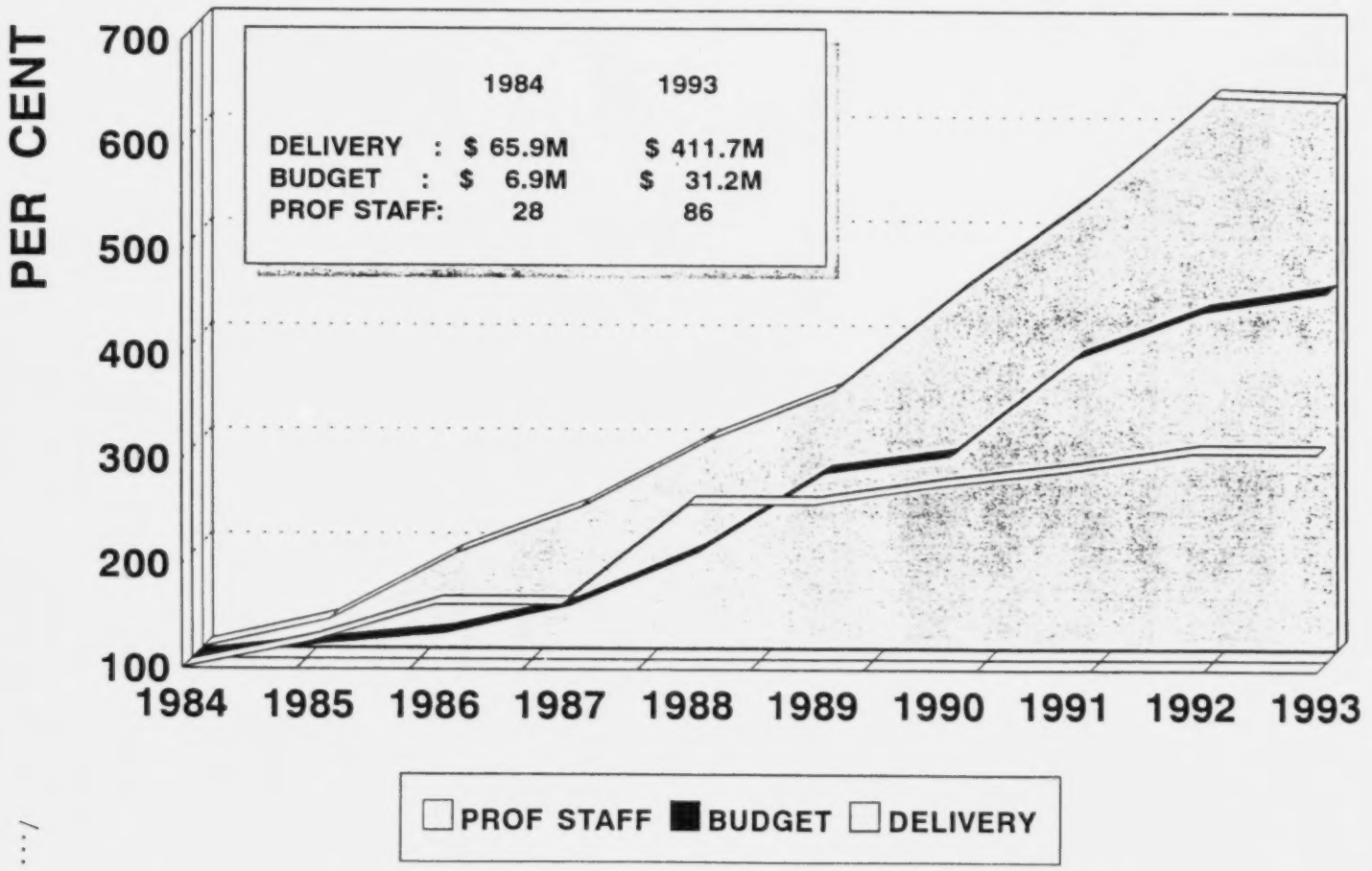
A. Introduction

44. The services provided by the Office for Project Services (OPS) continue to be in high demand. Graph 1 compares growth in programme delivery, with both the budget and the number of professional posts. The Administrator's staffing and other proposals to cope with the increasing workload are presented in detail below. The continued growth of OPS has given rise to a number of different requests by the Governing Council on different aspects of OPS activities. In this connection, the Administrator has taken a number of initiatives to respond to different issues raised, in particular, by the Governing Council, ACABQ and the Board of External Auditors. The Administrator's budgetary proposals should be viewed in the context of the following initiatives and reports:

OPS: PROJECT DELIVERY AND BUDGET

RELATIVE GROWTH: PROJECT DELIVERY, BUDGET, PROFESSIONAL STAFF

BASE: 1984 = 100 PER CENT



/....

(a) The Administrator has undertaken a restructuring of OPS, in particular with a view to improving its responsiveness and to increasing its operational efficiency. The substance and rationale of the restructuring is contained in the report of the Administrator on the senior management structure (DP/1992/45);

(b) The Administrator has established a new OPS project acceptance policy. The policy is described in detail in annex III to document DP/1992/45. The policy responds to paragraph 28 of Governing Council decision 91/46, in which the Council requests the Administrator to elaborate the criteria used by the Office for project acceptance;

(c) The Administrator is presenting to the Governing Council a detailed report on the provision of management services (DP/1992/43).

B. Income and expenditure

45. Governing Council decision 91/46 incorporated the Administrator's proposal to increase the transparency of the OPS budgetary presentation by delineating clearly between that element of the OPS budget funded from voluntary contributions to UNDP and that element of the budget funded from all other sources of income. Income earned in respect of OPS programmes financed from voluntary contributions during the course of 1990-1991 amounted to $30.0 million; OPS core budget expenditure was $25.5 million. OPS extrabudgetary income deriving from sources other than voluntary contributions for the same period is estimated at $25.6 million; extrabudgetary expenditure was $21.7 million.

46. Total income amounted to $55.6 million and total expenditure was $47.2 million. In sum, total expenditure was $8.4 million less than total income. This demonstrates the budgetary restraint exercised by the Administrator with regard to the OPS budget. The carry-over in the core budget is theoretically $4.5 million. However, the amount is capped at 10 per cent of the 1992-1993 appropriation. Therefore, $3.0 million is carried over and $1.5 million reverts to the overall resources of UNDP. With regard to the extrabudgetary component, the carry-over is $3.9 million.

47. In paragraph 29 of its decision 91/46, the Governing Council requested the Administrator to present proposals that would enhance the authority of the Council in determining administrative costs, bearing in mind the proposal of the Administrator on successor arrangements for OPS. The Administrator does not believe that the question of successor arrangements in so far as OPS is concerned should be reopened. Agreement has been reached on the basis of empirical studies that OPS would earn on average 10 per cent for services provided. The rate for different services will be reviewed and revised as required. The Administrator believes that it follows that, as in the case of all other agencies, if it has been shown that it costs 10 per cent to deliver effectively specific services, the Administrator should continue to have the authority to spend the 10 per cent. The ceiling on administrative

expenditures is imposed ab initio through the establishment of a system-wide income rate. The establishment of an expenditure ceiling would represent in effect a vote of no confidence in the extensively discussed and negotiated mechanism for controlling income.

48. With regard to extrabudgetary resources, it should be noted that all extrabudgetary income is the subject of extensive negotiation with the donors. Extrabudgetary activities must be self-financing. As referred to above, this requires that the Administrator is free to utilize extrabudgetary income in order to support extrabudgetary activities and to avoid subsidization from core resources. If the Administrator were not able to budget the full amount of extrabudgetary resources earned in order to support the growth of extrabudgetary activities, this would by definition lead to a situation where extrabudgetary activities would be subsidized from core resources. The Administrator will not permit this to occur.

49. In summary, the Administrator believes that the financial performance reflected above demonstrates that he continues to apply a policy of budgetary restraint with regard to OPS. Compared to total expenditure of $47.2 million, $8.4 million of additional income was not spent, representing a saving of around 15 per cent. The Administrator remains committed to a policy of budgetary restraint. At the same time, he believes that OPS must be given, within its income, the tools to maintain its capacity to respond effectively and in a timely manner to demands. Against this background, the Administrator proposes a budgetary policy for UNDP/OPS which includes the following elements:

(a) The continuation of a tightly managed policy with regard to core resources;

(b) The appropriate utilization of the extrabudgetary resources available;

(c) Measures to further decentralize operations, including participation in the regional service centre concept (see para. 22 (c));

(d) Extensive computerization with a view to providing enhanced efficiency and project budget management.

50. The specific action initiated by the Administrator along these lines is presented in detail below.

C. Revised OPS budget for 1992-1993

51. The Administrator has established an additional two Professional and two General Service posts on the OPS core budget. The Administrator is proposing to establish three additional General Service posts effective 1 July 1992. The budgetary implication is $1.2 million, representing an increase of 3.9 per cent. This is partially offset by cost reductions amounting to $0.4 million resulting from a decrease in inflation projections in New York and cost adjustments. The net impact on the OPS core budget is an increase of $0.8 million, representing 2.6 per cent.

52. The two Professional posts established are for a personnel officer (P-2) and an administrative officer (P-4). This responds to the need to restructure and strengthen OPS project personnel functions as well as the need to consolidate all OPS headquarters administrative matters in one unit. The increase of project delivery is reflected in graph 1 and the full implementation of authorities delegated to OPS from DOP, in particular regarding the recruitment and administration of international experts, requires the strengthening of OPS capacity. Similarly, the need for a consolidation of administrative functions is the corollary of OPS growth and is critical for the effective management of OPS administrative resources. The two General Service posts established relate to a personnel assistant to assist in the administration of project personnel and a secretary to provide secretarial assistance to the administrative unit. The three additional General Service posts relate to two programme implementation assistants and one secretary in the programme section.

53. With regard to support to extrabudgetary activities, the Administrator has established three Professional posts and 13 General Service posts. Of these, one Professional post and one General Service post are located in the field. Of the remaining 12 General Service posts at headquarters, four are in lieu of the subcontracting mechanism proposed in the revised budget estimates for 1990-1991 and budget estimates for 1992-1993 (DP/1991/49 (vol. I), and Corr.1 and DP/1991/49 (vol. II). The net financial implication is therefore an increase of three Professional and nine General Service posts, representing $2.5 million.

54. Specifically, the Administrator has established the following extrabudgetary posts:

(a) Field (Professional): one Regional Operations Coordinator (P-5) in Colombia to manage extrabudgetary activities related to the United Nations International Drug Control Programme (UNDCP). Principally, the Regional Operations Coordinator will manage and coordinate UNDCP-funded projects in Colombia, representing some $25 million;

(b) Headquarters (Professional):

(i) One Consultancy Services Officer (P-5) to be responsible principally for activities relating to all aspects of the management and implementation of management service agreements relating to the provision of consultancy services;

(ii) One Senior Environment Officer (P-5) to be responsible for the increasing workload related to projects funded from the Global Environment Facility and related activities;

(c) Field (General Service): One secretary (G-4) in Bangkok to assist the outposted programme management officers in the management of the expanding regional International Fund for Agricultural Development (IFAD) programme;

(d) Headquarters (General Service):

(i) One Personnel Assistant to strengthen the international consultant unit;

(ii) One payment clerk to expedite the processing of salaries and related entitlements for international project personnel and consultants;

(iii) One telex operator to cope with the increasing traffic;

(iv) One administrative assistant to strengthen the consultancy services functions;

(v) Two operations assistants, one to strengthen the IFAD unit and the other to provide support to the UNDCP-funded OPS-executed programme;

(vi) Three accounts assistants to cope with increasing workload, including the computations related to the implementation of the successor arrangements;

(vii) Three payments clerks to cope with the current volume of payments to be processed.

55. The Administrator has reverted to the establishment of posts rather than the use of subcontracts in the case of four General Service posts because of the practical problems that have occurred in the implementation of the original proposal. While the use of subcontracts continues to have merit, OPS management has found that subcontract personnel display a very high rate of turnover as result of their contractual status. The consequent loss of efficiency and effectiveness makes the use of this mechanism less attractive than originally envisaged.

D. Management information systems

56. Beginning in 1991, and continuing during the current biennium, the Administrator has undertaken an extensive programme of improvement and new development of information systems for OPS. Activities are under way or in the planning stage to address new or improved automation of the most critical OPS functions. The growth of OPS has made mandatory the automation of many processes and procedures because of the high volume of work and the need to keep staffing levels within reasonable bounds. In particular, problems with the current OPS funds control system, which supports the project budget management responsibilities of OPS project management officers, have impeded OPS management from carrying out financial control functions in the most effective manner.

57. The inadequacies of the available systems had already been noted by the independent consultants who reviewed OPS in 1988 and have given rise to adverse audit comments. OPS not only acknowledged such inadequacies but also

agreed to address the problem as a matter of high urgency. Action on this, however, was deferred pending the results of the integrated administrative system (IAS) project, and therefore the Administrator did not request additional funds for this undertaking to be included in the budget for the 1992-1993 biennium.

58. In 1991, the same consultants engaged for the IAS project assessed OPS information needs and recommended short-term and long-term solutions; the Administrator has agreed to implement those recommendations. Most of the planned information systems activities can be completed within the regular OPS work programme and funded from the current appropriation for systems development. In the areas of project management and project budget management, however, major initiatives are required to define and develop systems to enhance the project management function and to provide a firm foundation for better financial management of project funds. These needs are unique to OPS and lie outside the scope of the United Nations/integrated management information systems or the UNDP IAS projects.

59. The Administrator is therefore requesting an additional $1.4 million for the definition of requirements for all aspects of project management, including imprest account management, project planning, input monitoring, budget monitoring, and other key project management functions, and for development of an OPS project budget management system. The systems will respect the IAS data model and technical architecture recommendations, so that the developed systems will be of lasting value. During this project, OPS will consult with other bodies that have similar project and fund management responsibilities (e.g., the Department of Technical Cooperation for Development (DTCD), the United Nations Population Fund (UNFPA) and UNICEF). Once the new systems are operational, it may be possible for those organizations to benefit from the OPS systems at marginal cost. Such consultations in the past resulted in the adaptation of the funds control system for use by UNFPA.

60. With the implementation of better information systems, OPS will be able to provide appropriate automated project and financial management tools to project management officers for the first time. This will permit project activities to be managed and monitored and project funds to be controlled more effectively. The availability and accuracy of management information will also improve. In addition, the quality and timeliness of financial information for OPS projects will increase as new financial and administrative systems (e.g., travel, personnel and accounting systems) are developed by UNDP core units which provide data to OPS.

IV. THE INTER-AGENCY PROCUREMENT SERVICES OFFICE

61. The Administrator believes it appropriate to report to the Governing Council on the rapid expansion of extrabudgetary procurement activities by the Inter-Agency Procurement Services Office (IAPSO) that started during 1990 and has now been confirmed during 1991. In 1989, IAPSO procured goods valued at some $13.8 million. This grew to some $36.2 million in 1990 and was sustained at $38.5 million in 1991.

62. IAPSO procurement activities are mandated by Governing Council decisions. In particular in its decision 78/31 of 3 July 1978, the Council stated that the overriding concern of IAPSO should be to procure equipment at the lowest possible cost consistent with the maintenance of adequate standards. The role of IAPSO during most of the 1980s, however, consisted not of direct procurement but in the expansion, redefinition and refinement of standards for common user items, in particular office equipment and motor vehicles. Currently, goods worth about $250 million, notably motor vehicles, office equipment and computers are being purchased by the United Nations system and the World Bank annually, based on IAPSO catalogues containing pre-negotiated prices and delivery times. Clearly, the 1990s have already seen a new expansion of the functions that were originally envisaged for direct procurement.

63. IAPSO users can be categorized into three groups: (a) the United Nations system as a whole (in particular, UNDP field offices), which accounted for 21 per cent of the dollar value of IAPSO direct procurement value; (b) bilateral donor organizations, in particular, those of the Nordic countries and Germany, including both governmental and non-governmental organizations, amounted to 62 per cent; (c) United Nations staff members and project personnel, who accounted for the balance of 17 per cent. Vehicles accounted for the great majority of purchases ($35.2 million).

64. Extrabudgetary resources have been generated since the early 1980s through the charging for procurement services to cover direct and indirect costs (normally 5 per cent). Income earned in 1991 is estimated at $1.5 million. The 1992-1993 biennial budget estimates included an estimate relating to IAPSO extrabudgetary activities of $2.5 million. The current estimate stands at $2.7 million. In the revised budget estimates for 1990-1991 and budget estimates for 1992-1993 (DP/1991/49 (vol. I) and Corr.1 and DP/1991/49 (vol. II)), four Professional and three General Service extrabudgetary posts were reported. At the time of budget formulation, the growth of procurement activities was extremely recent and was being supported with temporary assistance pending a review of developments. The expansion of procurement activities has now been confirmed and the Administrator believes that IAPSO should continue to provide this service, as mandated; he notes in this connection that 62 per cent of the procurement services are largely on behalf of Nordic and German organizations. Against this background, the Administrator has decided to regularize 12 temporary extrabudgetary positions by establishing them as extrabudgetary posts. Seven positions relate to procurement clerks, three to accounts clerks, one to an administrative clerk

and one to a secretary. The financial implication of establishing these extrabudgetary posts is estimated at $0.5 million per annum. Before regularizing any further extrabudgetary positions, the Administrator intends to conduct a management review to determine appropriate staffing levels. All posts approved are to be financed from extrabudgetary resources. The Administrator is not requesting any increases in the IAPSO core budget.

V. OTHER MATTERS

A. United Nations Volunteers

65. The number of United Nations Volunteers in the field as of 31 December 1991 was 2,048. This represents three more than the figure for 31 December 1990. Against this background, the Administrator is not proposing any staffing adjustments relating to the application of the staffing formula. Discussions are currently under way regarding the participation of the United Nations Volunteers programme in Cambodia. Support costs will be funded from extrabudgetary resources. The Administrator will report to the Governing Council on the arrangements in place. Cost adjustments are reflected in table A.

B. Decision 90/45, paragraph 22

66. In paragraph 22 of its decision 90/45 of 22 June 1990, the Governing Council requested the Administrator to address, if possible, the question of savings through merging with UNDP the appropriate units of the trust funds (i.e., the United Nations Capital Development Fund, the United Nations Sudano-Sahelian Office, the United Nations Development Fund for Women, the United Nations Fund for Science and Technology for Development, and the United Nations Revolving Fund for Natural Resources Exploration) and/or the Office for Project Services, including technical, personnel, finance and evaluation services, and to report thereon to the Council at its thirty-ninth session (1992).

67. The Governing Council reiterated the request in paragraph 34 of its decision 91/46. In response to this decision, a task force was convened in 1991 by the Director, BRESA, to review options. The task force recommended against the merger of any specific functions with either UNDP or OPS.

68. In the first place, the task force considered that a merger of specific functions was unlikely to result in any savings and rather foresaw the possibility of increased costs resulting from an additional workload for central services. Secondly, the funds considered that strong linkages between units within the funds were an integral part of their strength and an inherent characteristic of their working methods. This was particularly true when co-financing was an essential element in the overall field strategy. In this connection, a third factor stressed by the task force was the variety of specific reporting requirements which characterized the different funds and

was a condition of donor support. Fourthly, the specific character and mandates of the Funds make their needs quite distinct. In this connection, UNIFEM, UNFSTD/UNRFNRE, UNCDF and UNSO have quite distinct and separate requirements. Fifthly, it should be noted that an administrative merger between UNFSTD/UNRFNRE with significant staff savings has now been implemented.

69. In summary, there was a strong sense in the funds that any form of merger at this time would be counterproductive and could adversely affect their operations. Against this background, the Administrator has decided not to put forward any further proposals for an administrative merger at this time. The Administrator will again review the situation in the light of further experience with the arrangements outlined in his report on the senior management structure (DP/1992/45) and bearing in mind the resource situation of the different funds.

TABLE B. PROPOSED UNDP REVISED 1992-1993 BIENNIAL BUDGET FOR ADMINISTRATIVE SERVICES, PROGRAMME SUPPORT AND DEVELOPMENT ACTIVITIES AND TRUST FUNDS

(in thousands of US dollars)

	APPROVES:	TAKES NOTE OF:	
	Gross/net Appropriations	Estimated extra-budgetary income	Total gross/net estimates
I. RESOURCES OF UNDP			
A. UNDP core activities a/			
Headquarters b/	147 871.8	15 400.0	163 271.8
Field Offices	330 220.7	26 548.8	356 769.5
Gross UNDP core activities	478 092.5	41 948.8	520 041.3
Estimated income	32 000.0	0.0	32 000.0
Net UNDP core activities	446 092.5	41 948.8	488 041.3
B. Programme support and development activities			
Programme development activities	20 736.3	0.0	20 736.3
Project/programme implementation services			
DSS	5 788.7	0.0	5 788.7
OPS c/	32 275.0	28 902.4	61 177.4
IAPSO	5 675.1	2 667.4	8 342.5
UNV	30 830.8	0.0	30 830.8
National execution	2 680.4	0.0	2 680.4
Total project/programme implementation services	77 250.0	31 569.8	108 819.8
Programme support d/	2 300.0	0.0	2 300.0
Total programme support and development activities	100 286.3	31 569.8	131 856.1
C. Total resources of UNDP			
Gross resources	578 378.8	73 518.6	651 897.4
Estimated income	32 000.0	0.0	32 000.0
Net resources	546 378.8	73 518.6	619 897.4
II. RESOURCES OF TRUST FUNDS			
A. UNCDF	10 627.1	0.0	10 627.1
B. UNRFNRE and UNFSTD	4 481.2	171.2	4 652.4
C. UNSO	8 038.2	2 544.9	10 583.1
D. UNIFEM	5 347.4	309.2	5 656.6
Total	28 493.9	3 025.3	31 519.2
III. TOTAL UNDP APPROPRIATIONS			
Gross appropriations	606 872.7	76 543.9	683 416.6
Estimated income	32 000.0	0.0	32 000.0
Net UNDP appropriations	574 872.7	76 543.9	651 416.6

a/ The Administrator is permitted to redeploy between the field office and headquarters appropriation lines up to a maximum of 5 per cent.

b/ Headquarters extrabudgetary income represents income from external sources, exclusive of reimbursements to UNDP core from non-core units. The reimbursements are already included in the appropriation estimates of the non-core units.

c/ The approved appropriation is funded from UNDP General Resources.

d/ Represents UNDP contribution to CGIAR and UNDP-UNSO/UNEP joint venture.